tepav

Türkiye Ekonomi Politikaları Araştırma Vakfı

Openness: Blessing or curse for the Turkish economy?

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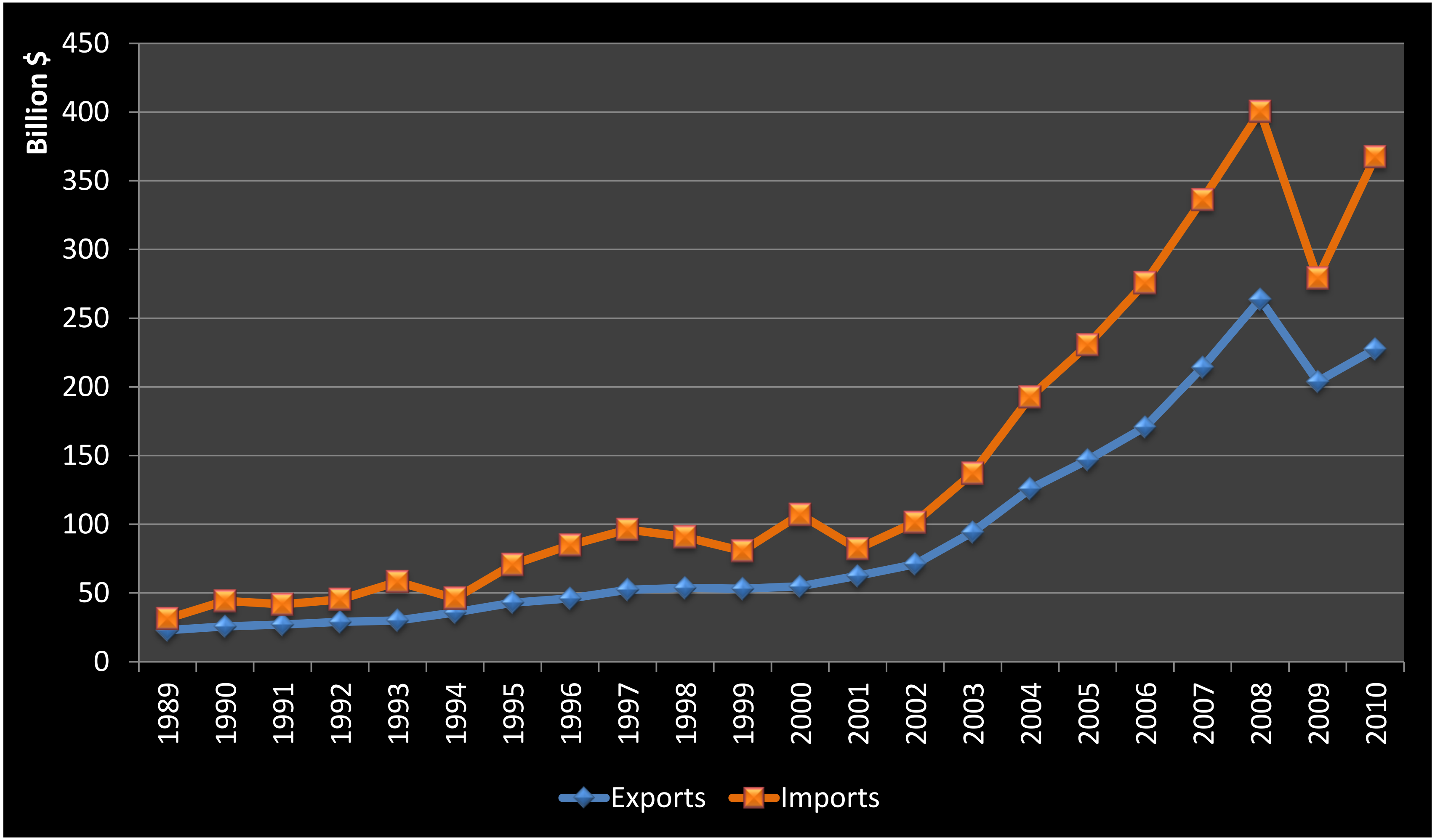
"…[O]**utward-oriented growth brings both opportunities and risks for developing countries. The key is in finding the appropriate set of policies to manage openness, one that maximizes its benefits and minimizes its costs."**

From the report, p. 10.

Outline of the talk

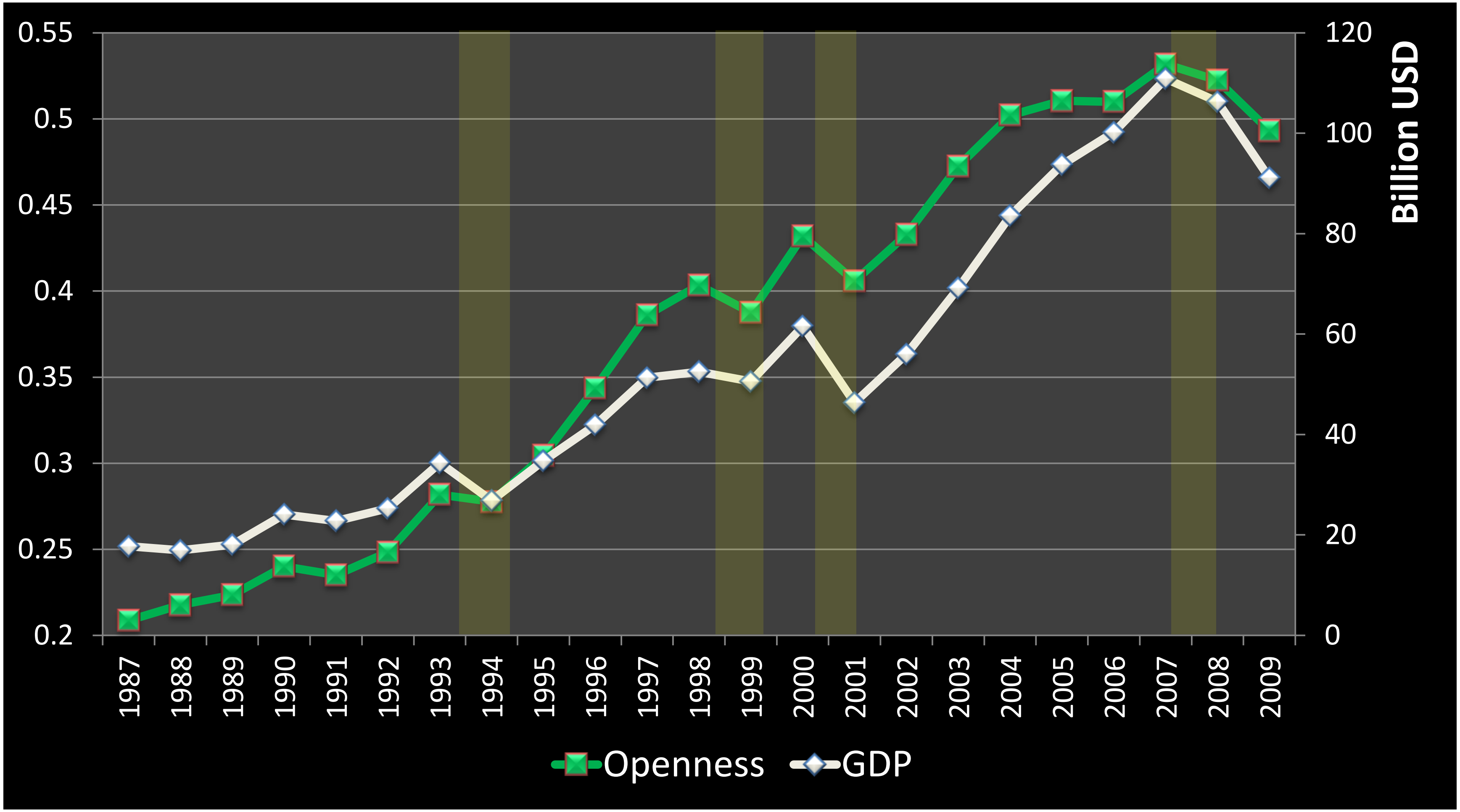
- Openness and the Turkish Economy
- On the upside…
- …but on the downside…
- How to reduce risks → Diversification
  - Country-wise
    - S-index
  - Product-wise
    - S-index
- Conclusions

Increasing Trade Volumes

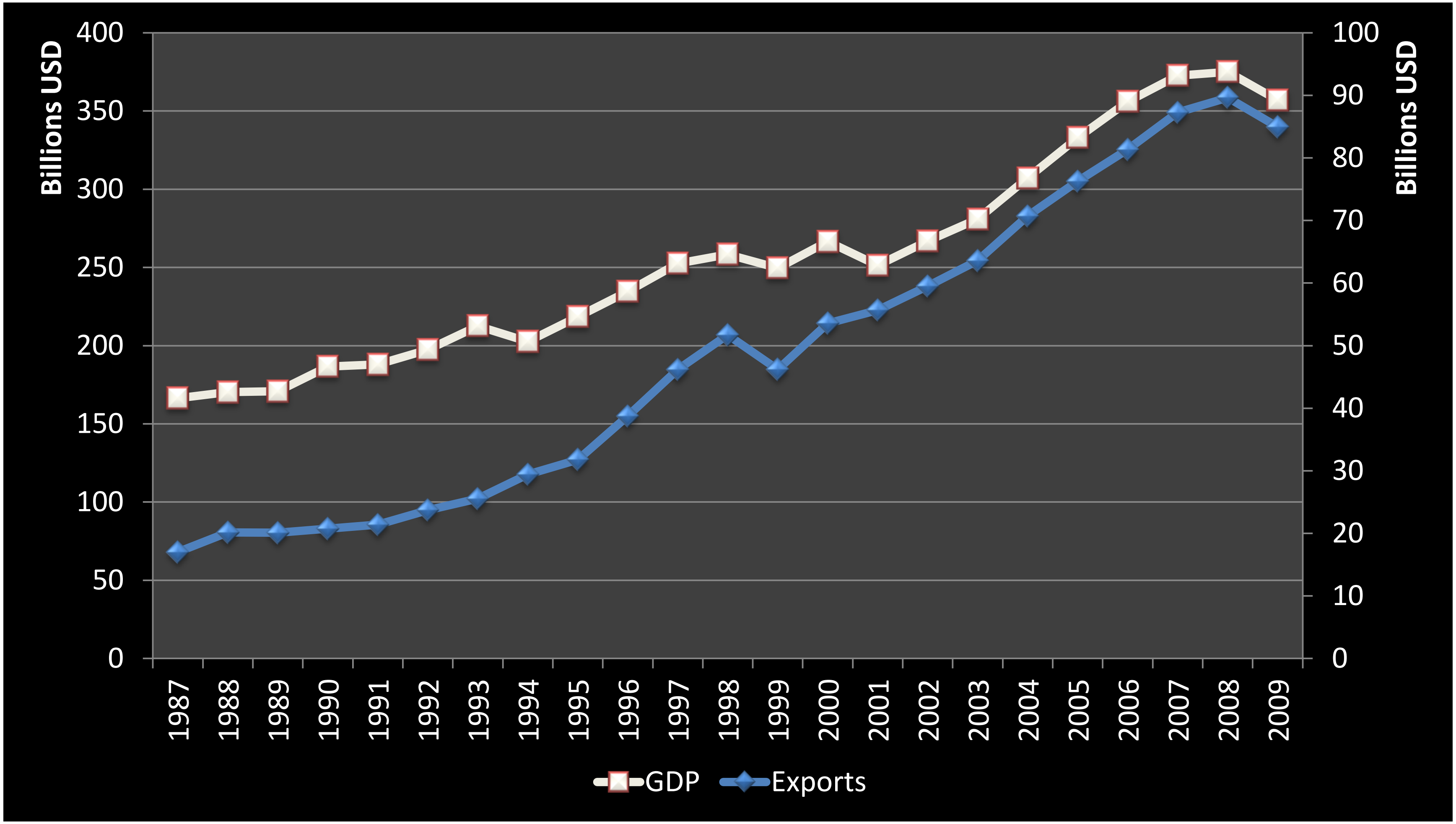


Source: UN Comtrade

Openness vs. GDP (at billions of constant 2000 USD)

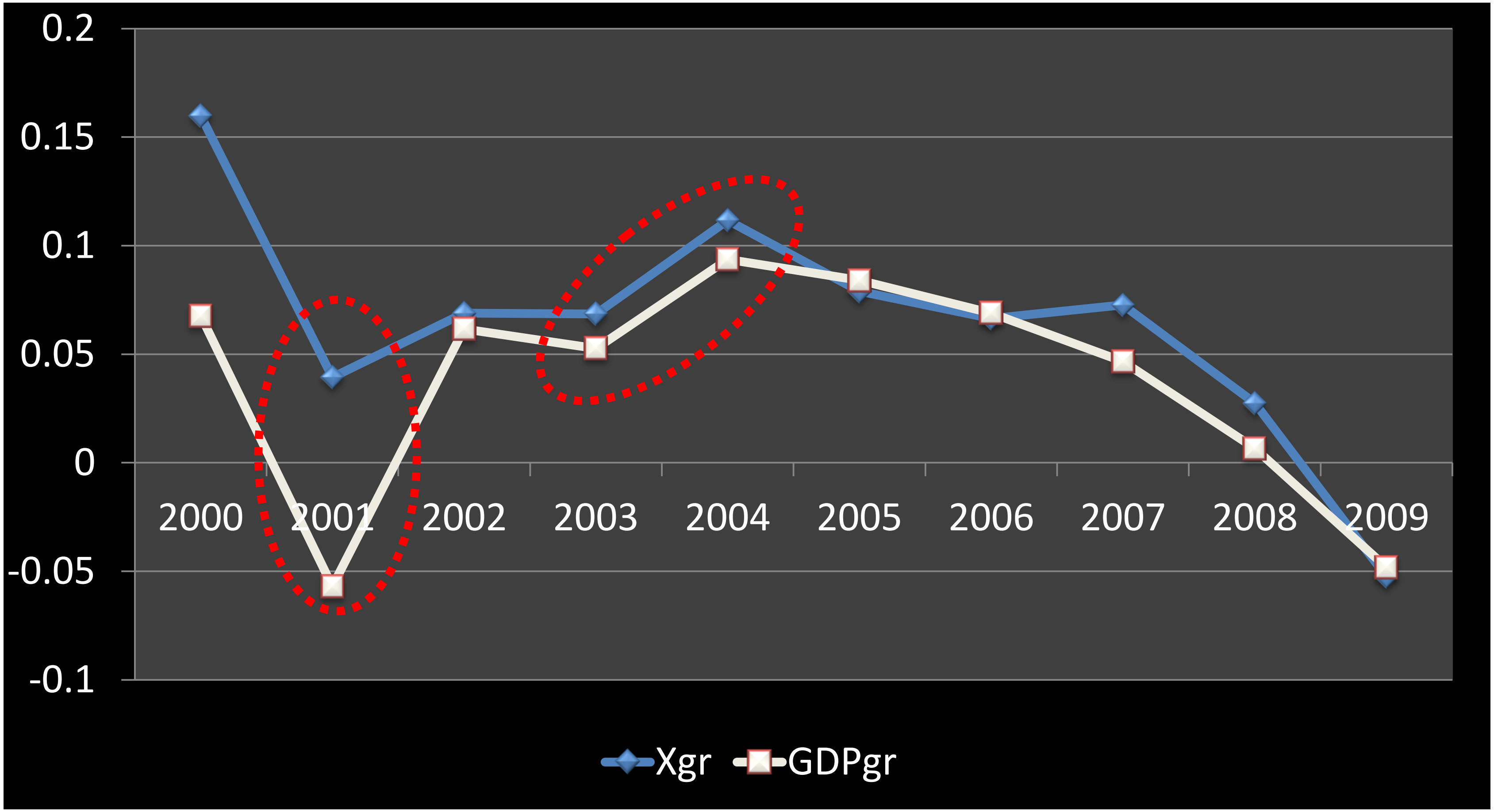


On the upside:
Exports vs. GDP (at billions of constant 2000 USD)



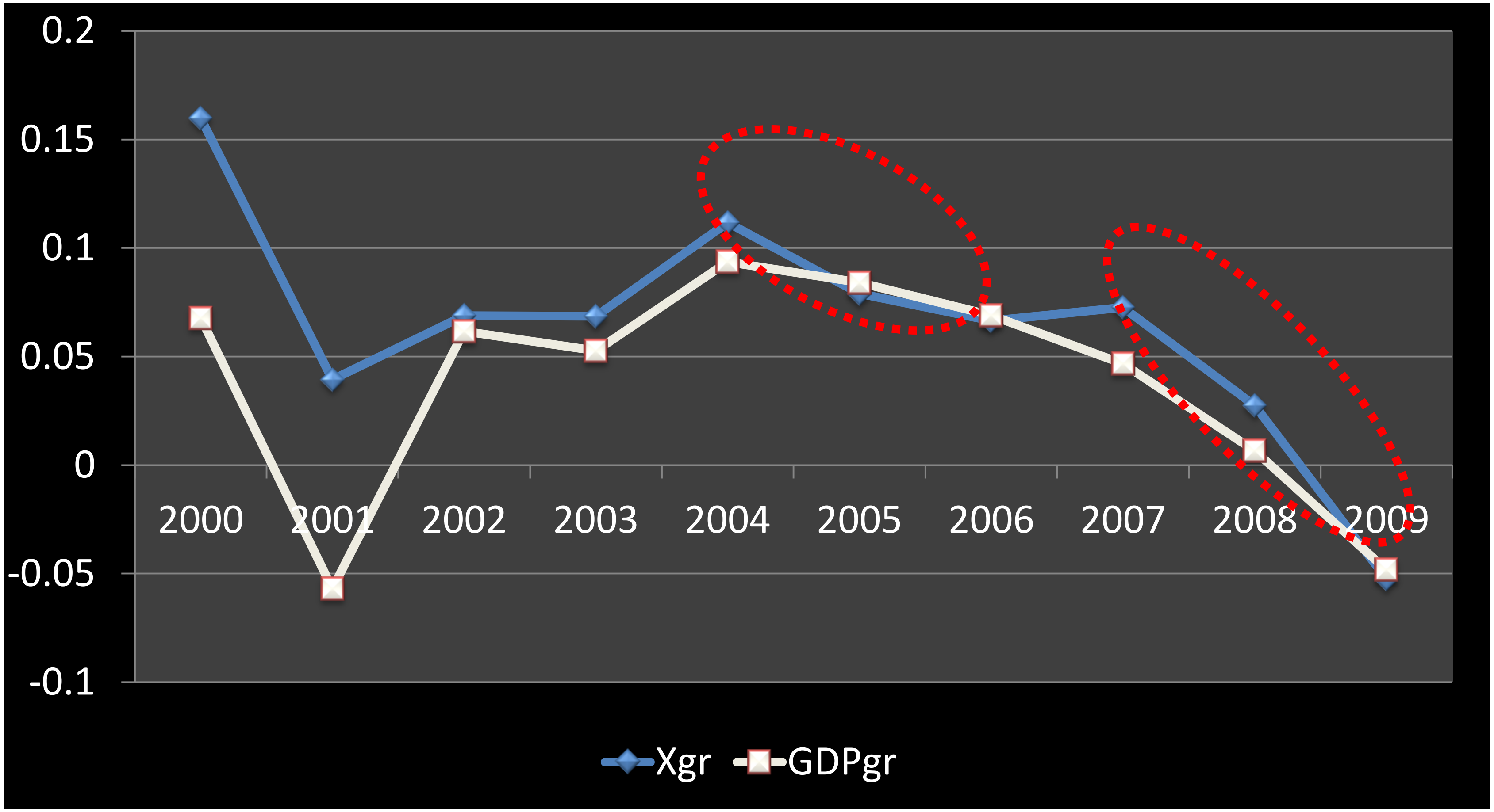
On the upside: Export growth vs. GDP growth

Became even more strongly correlated starting from the 2000s (cor=0.82)



- During the recession of 2001, one of the most severe crises that the Turkish economy experienced until then, some of the negative effects of the contraction in domestic demand including job losses were avoided through an aggressive export campaign.
- The rise in exports helped pull up the GDP.

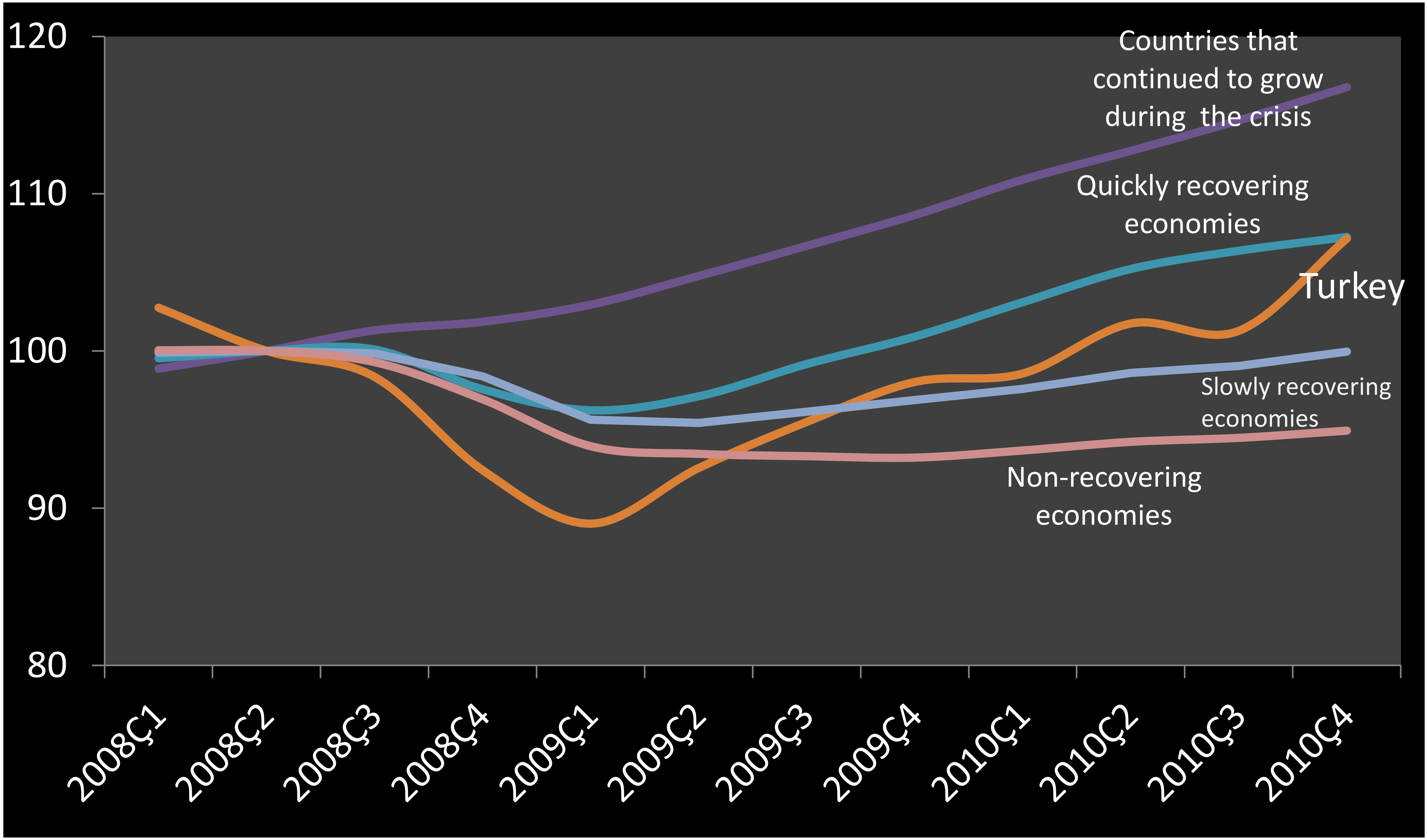
…or on the downside?
Export growth vs. GDP growth



Source: UN Comtrade and WDI

- During the latest, global recession Turkish exports declined due to (exogenous) developments abroad, i.e., contraction of demand in leading export markets for Turkish products, *significantly contributing to the slow down in economic activity and to the rise in unemployment*.

On the production side: Turkey quickly experienced a significant contraction in output but made a solid comeback



1	China	125.1%
2	India	120.0%
3	Singapore	115.3%
4	Indonesia	114.2%
5	Argentina	113.8%
6	Peru	113.6%
7	Israel	108.3%
8	Poland	107.8%
9	Turkey	107.1%
10	Brazil	107.0%
…		
23	Mexico	100.9%
24	USA	100.2%

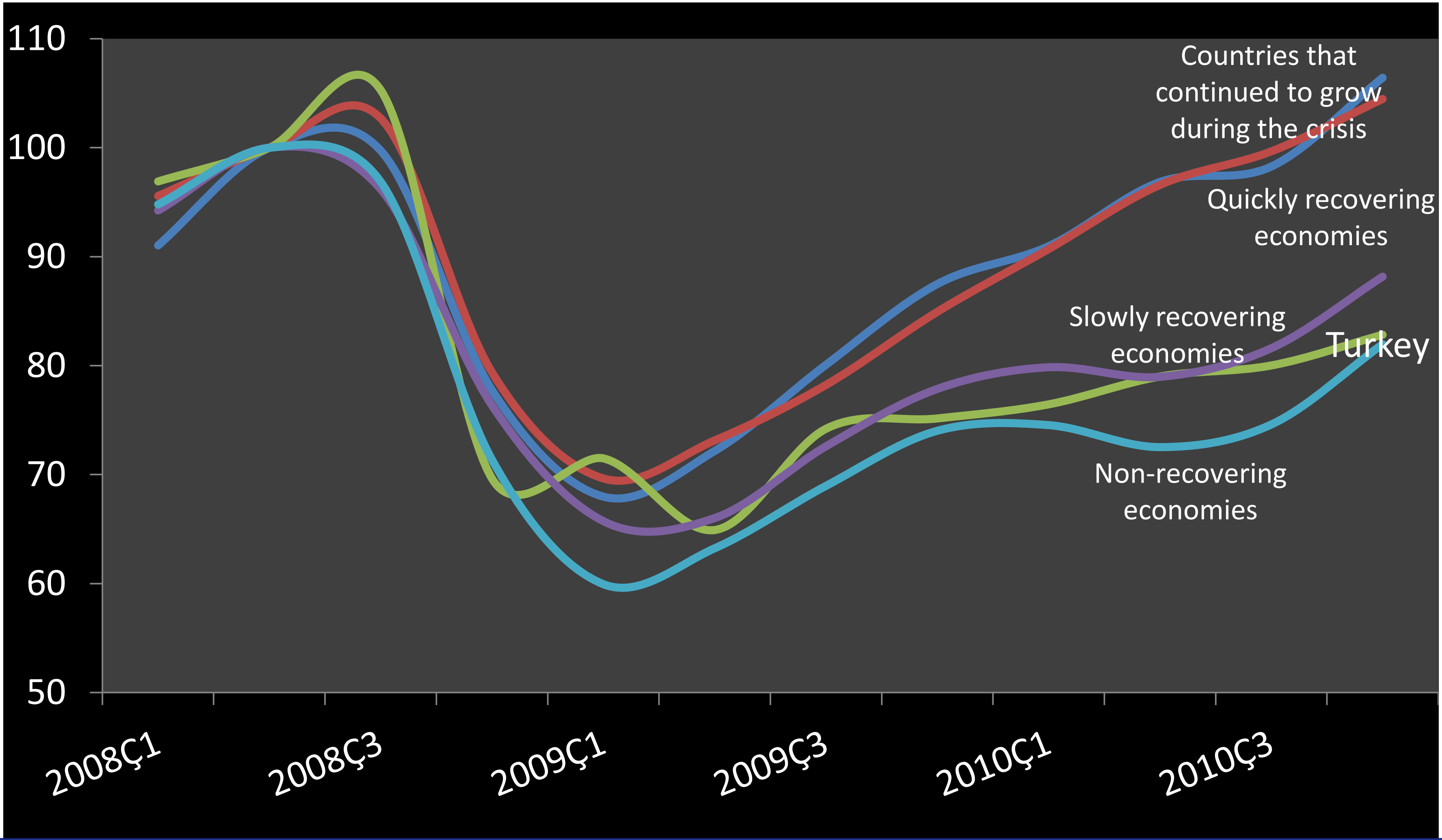
As of the 2nd quarter of 2010, Turkey was the 9th country among 24 that caught up their pre-crisis (2008Q2) output levels

1	Australia	123.8%
2	Indonesia	118.5%
3	China	113.1%
4	Korea	112.8%
5	Peru	112.3%
31	Canada	83.4%
32	Spain	82.9%
33	Turkey	82.8%
34	Italy	82.3%
35	France	81.2%
36	Austria	77.8%
37	Denmark	75.2%

…but it could only rank the 33th (among 40 countries) in reaching pre-crisis level of exports

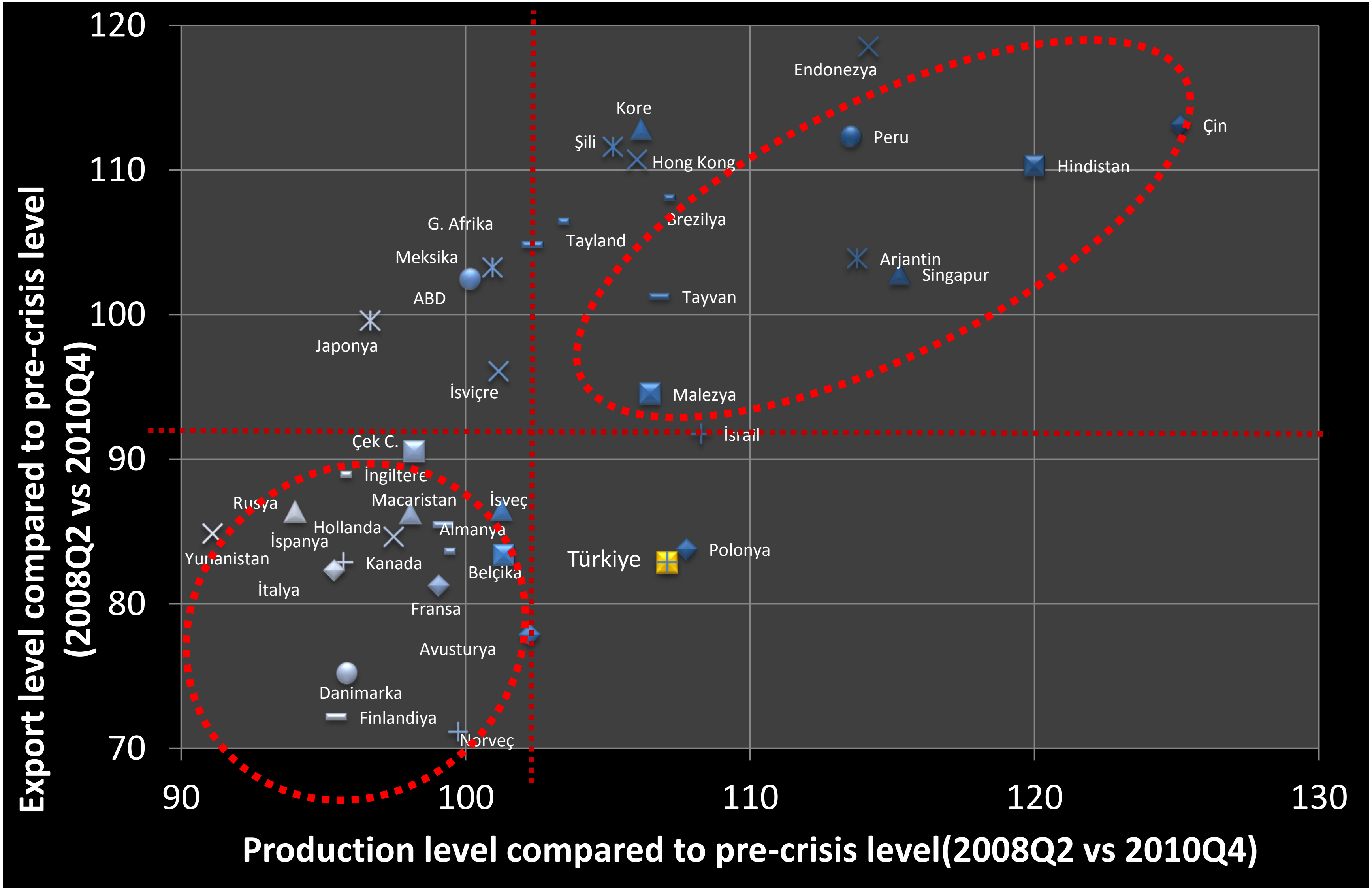
Kaynak: DTÖ and TEPAV Hesaplamaları

On the export front: Turkey's performance was simlar to the poorest performers among 40 countries



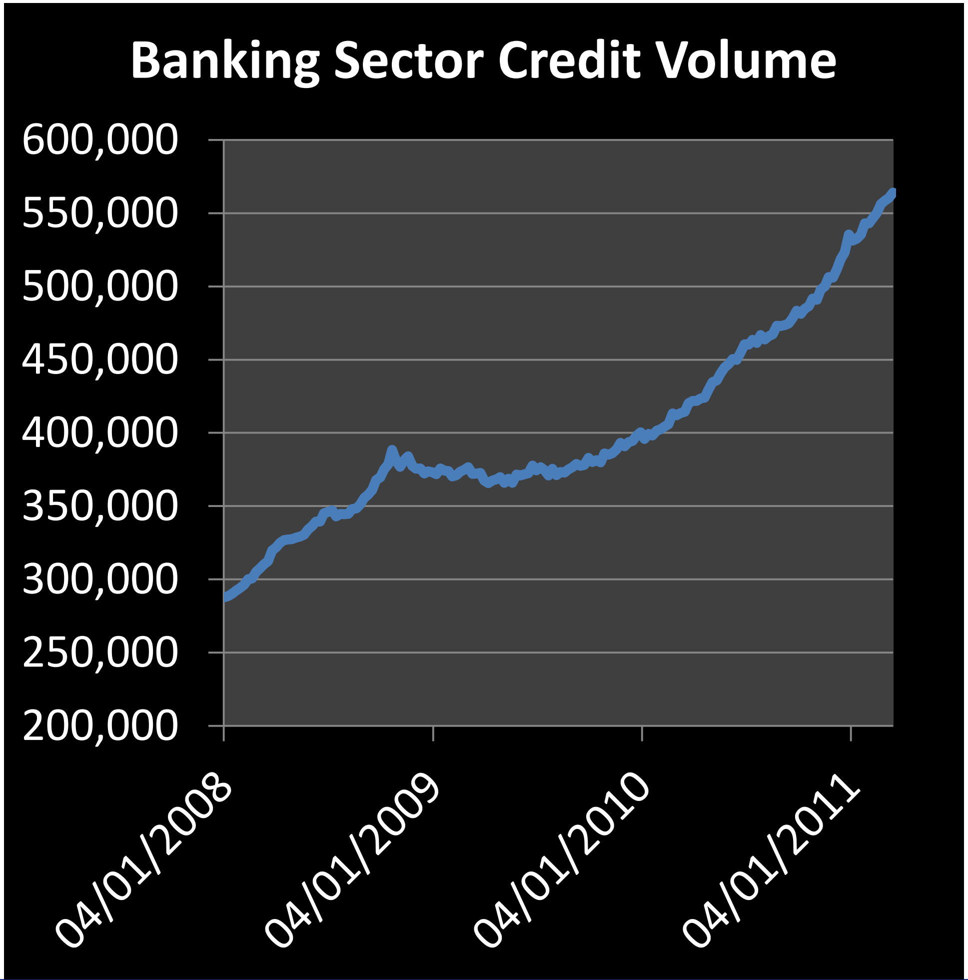
Source: DTÖ and TEPAV Calculations

During the recent crisis



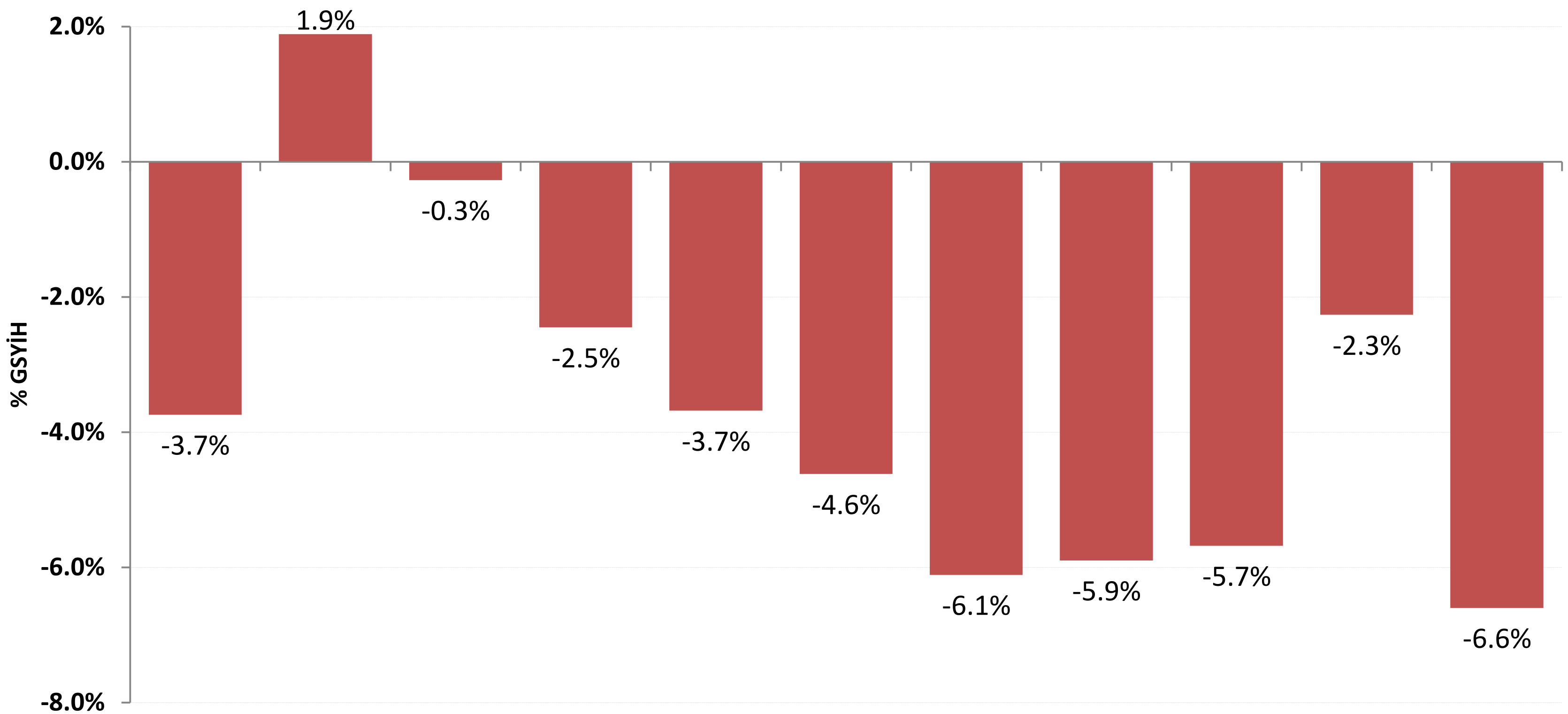
- Unlike the local crisis of 2001, the recovery came mostly through a *significant expansion of domestic demand* fueled by bank loans, and turned out to be a strong comeback thanks to the large size of the Turkish market.

Economic growth picked up due to the boom in bank loans…



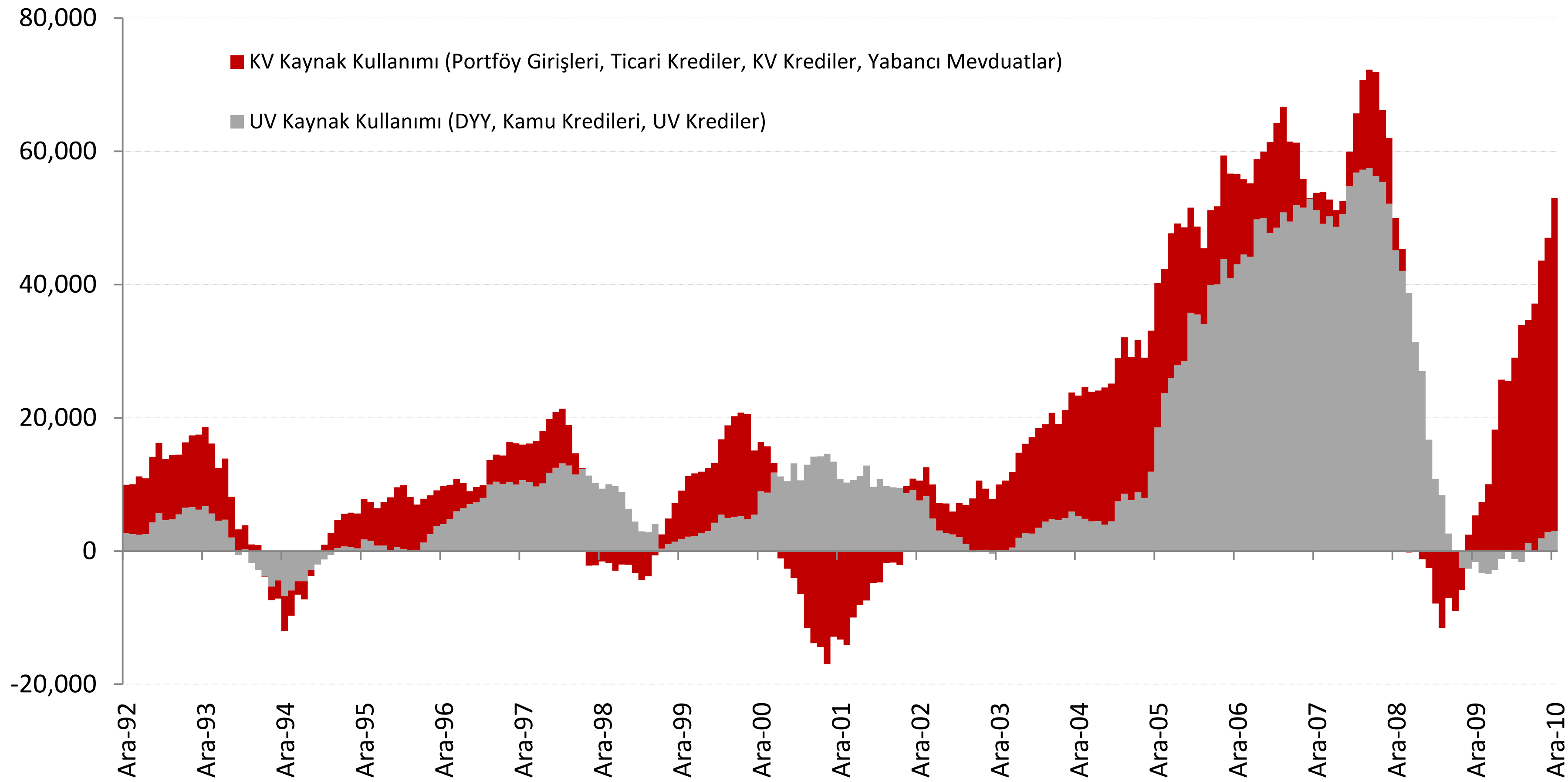
Real Increase in Credit Volume (Jan'10 - Jan'11)	
SME	46.4 %
Micro sized	41.8 %
Small sized	40.2 %
Medium sized	55.1 %
Corporates&Large scaled	23.6 %
Consumer Credit	32.9 %
Credit Cards	14.4 %
Total Credits	29.8 %

…but the expansion of domestic demand proved to be a mixed blessing when the share of current account deficit in GDP reached record levels



Source: TÜİK

Growing current account deficit is increasingly financed with short-term capital flows, increasing the vulnerability of the Turkish economy to a new global recession

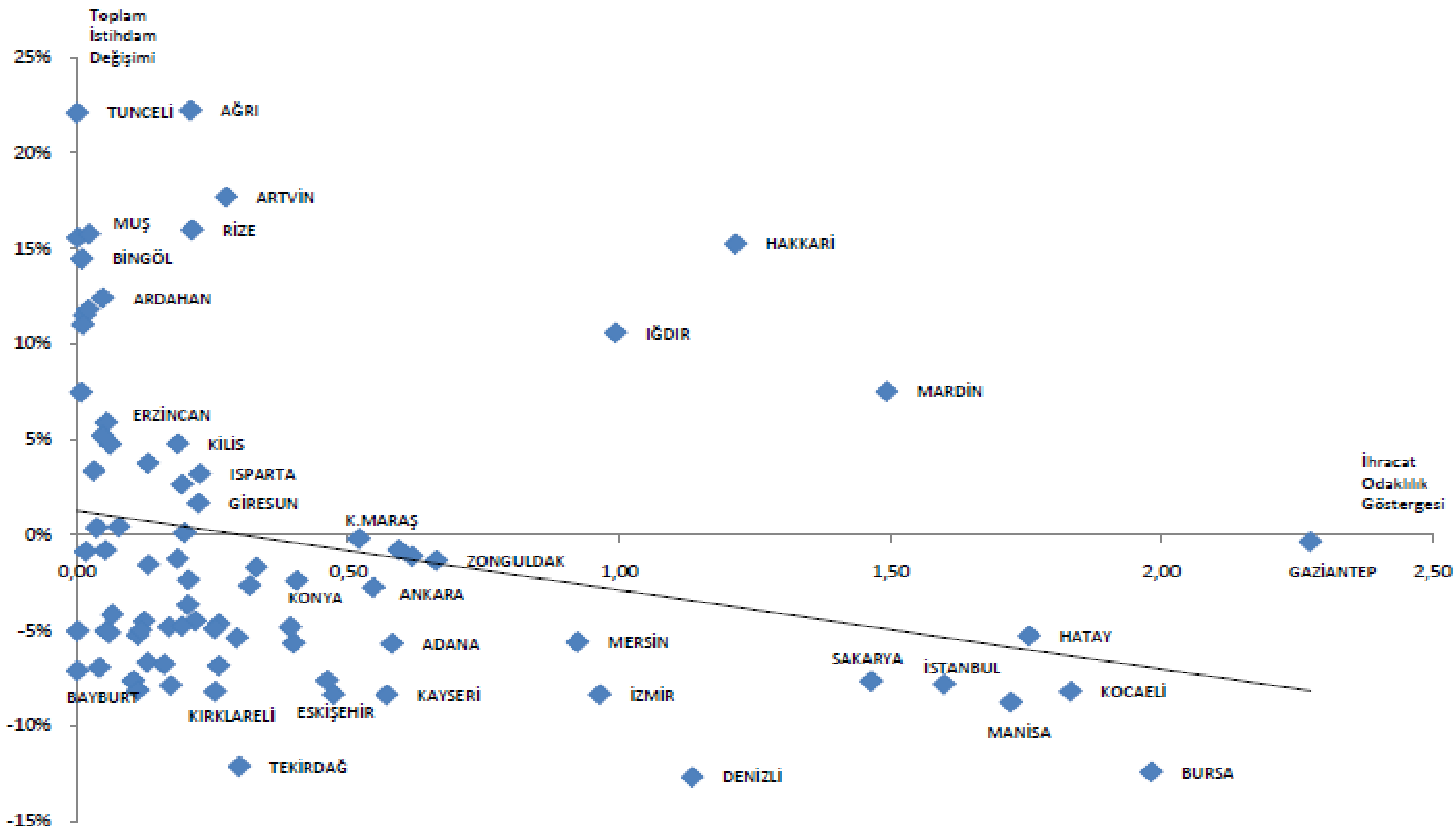


Why should we be concerned? Lost jobs

Source: TÜİK

Export orientation vs. employment losses

First half of 2009

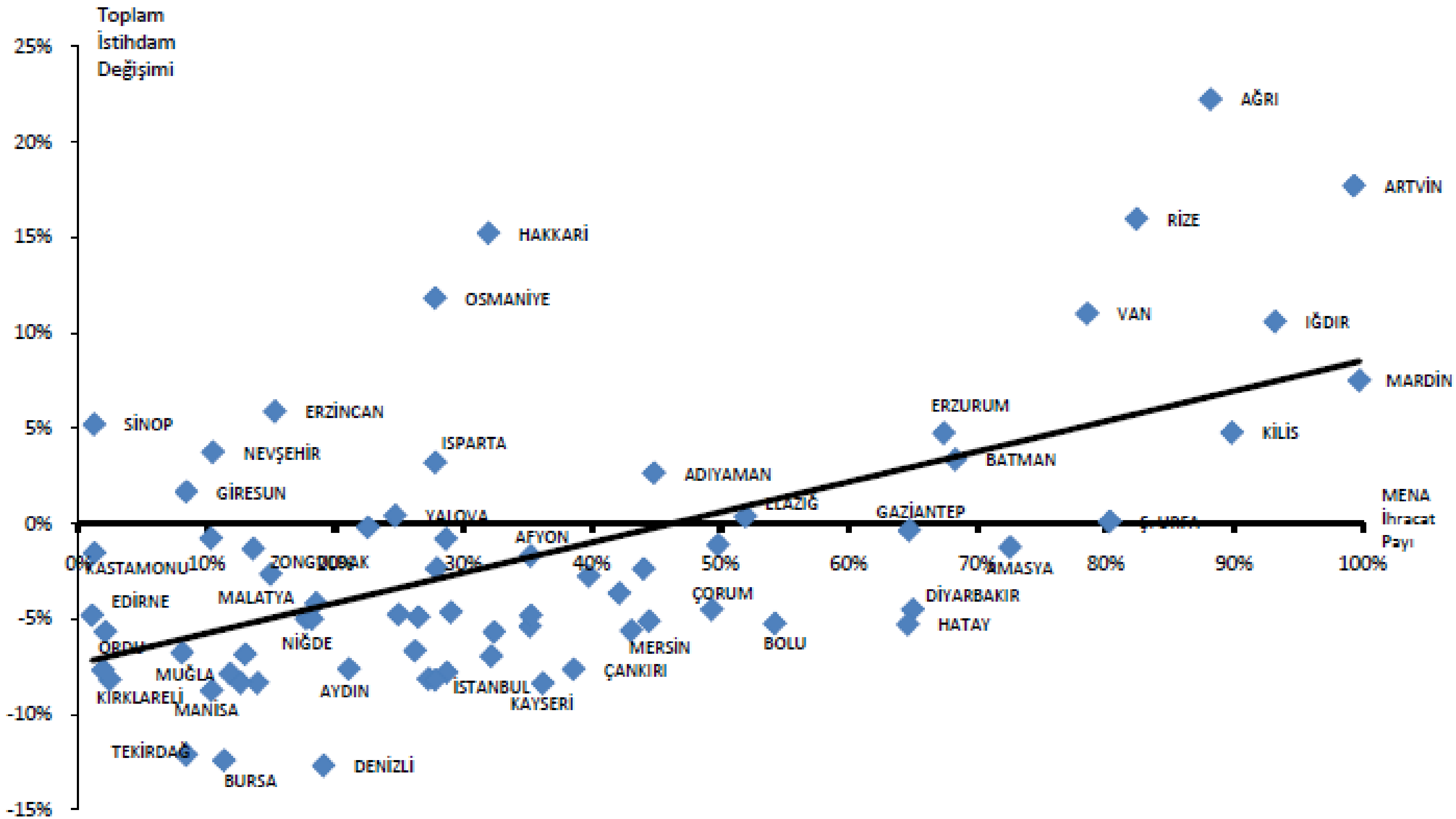


Employment vs. Export Orientation

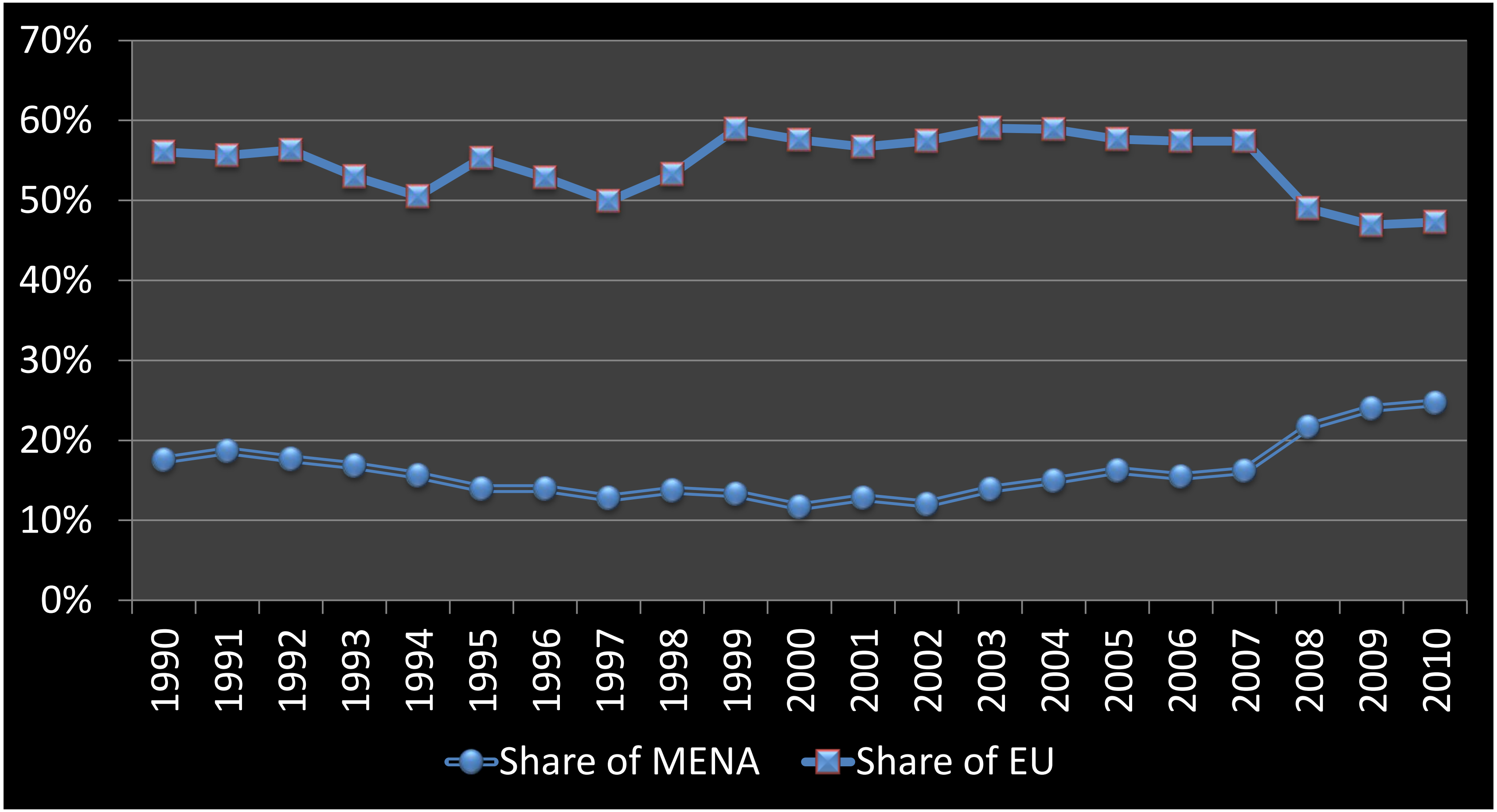
- Export-orientation index:

$$EOI = \frac{Exports\ of\ the\ region \big/ Total\ exports\ of\ Turkey}{Number\ of\ employed\ people\ in\ the\ region \big/ Number\ of\ employed\ people\ in\ Turkey}$$

Way out?
Diversification of markets and products



Shares of the EU and MENA in Turkey's Exports



Source: UN Comtrade

Measurement of diversification: S-index

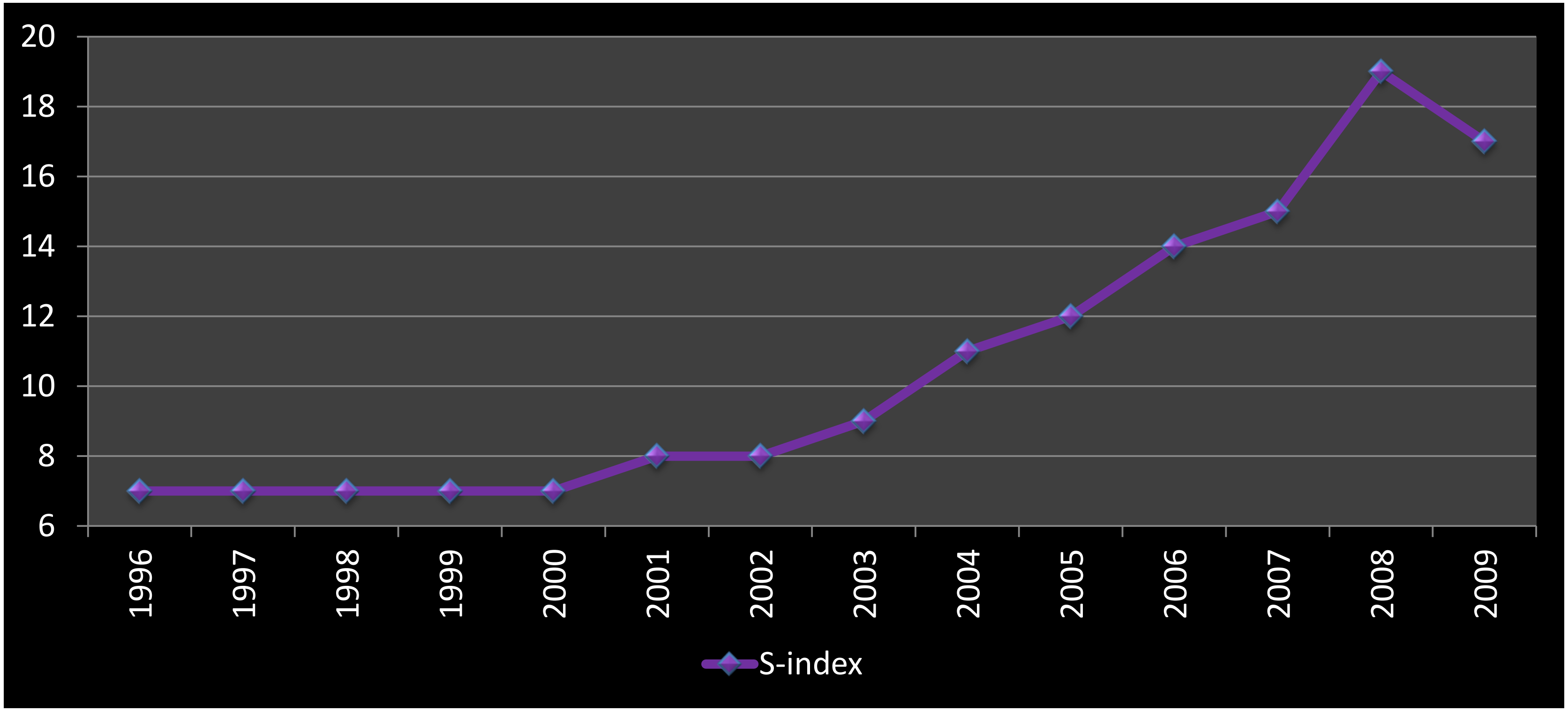
- Inspired by the *H*-index that J.E.Hirsch suggested in 2005 to determine total impact that a scientist has on the related literature.
- The index used here is called the *S*-index after Sayan (2010, 2011) where a similar index was suggested to measure the degree of diversification of Turkish exports and FDI in/outflows.
- For exports, *S*-index is calculated by identifying the number of countries/products that Turkey exports more than a critical value.

  - The index takes the value of *s*, if there are at least *s* countries that Turkey exports *sx*100 million USD each in a given year.

  - Likewise, the index takes the value of *r*, if there are at least *r* sectors in Turkey that export *r**100 millions USD each during the period under consideration.

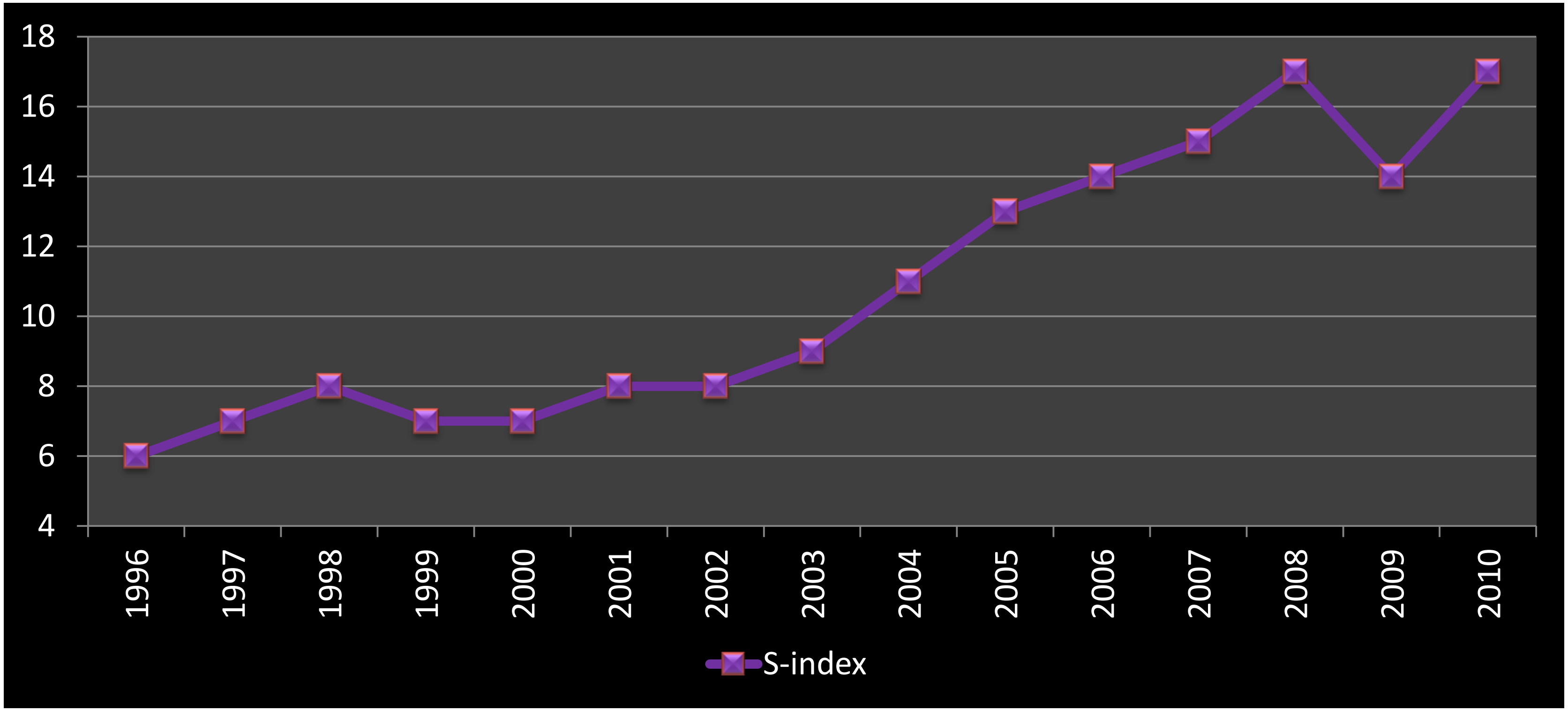
Export S-index, Country-Based (*s* countries that Turkey exports at least *s*x**100** million USD worth of products each)

1996 – 2000	2001 – 2002	2003	2004	2005	2006	2007	2008	2009
7	8	9	11	12	14	15	19	17



Export S-index, Product-Based (r products whose exports from Turkey are worth at least *r*x**100** million USD each)

1996	1997	1998	1999-2000	2001-2002	2003	2004	2005	2006	2007	2008	2009	2010
6	7	8	7	8	9	11	13	14	15	17	14	17



- Integration of the cities to global economy is an important determinant of the employment losses.
- Diversification matters, too.

Openness to Financial Crises

Transmission channels:

- Credit channel
- Portfolio investment channel
- International trade
- Decreasing consumer and investor confidence